



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Atlanta Field Office-Audit Division
3003 Chamblee Tucker Rd
Atlanta, GA 30341

August 27, 2003

MEMORANDUM

TO: Joseph F. Picciano
Acting Regional Director, FEMA Region II

FROM: Gary J. Barard
Field Office Director

SUBJECT: Virgin Islands Government, Department of Public Works
FEMA Disaster No. 1067-DR-VI
Audit Report No. DA-24-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the Virgin Islands (V.I.) Department of Public Works (DPW). The objective of the audit was to determine whether DPW and other V.I. Government entities accounted for and expended FEMA funds according to federal regulations and FEMA guidelines.

The DPW received an award of \$11.4 million from the V.I. Office of Management and Budget (OMB), a FEMA grantee, for debris removal, emergency protective measures and repairs to roads and other facilities damaged as a result of Hurricane Marilyn in September 1995. The award provided 90 percent FEMA funding for 32 large projects and 87 small projects.¹ The audit covered the period September 1995 to January 2001. During this period, the V.I. Government claimed \$10,415,545 (see Exhibit) and received \$9,151,720 of FEMA funds.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included tests of the V.I. Government's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

¹ According to FEMA regulations, a large project cost \$43,600 or more and a small project cost less than \$43,600.

RESULTS OF AUDIT

The V.I. Government did not maintain accurate records on the receipt of program funds and did not always follow sound contracting procedures for awarding contracts for project activities. Also, DPW claimed questioned costs of \$772,881 (FEMA share - \$695,593) resulting from charges that were unsupported, unrelated to the FEMA projects, or duplicative in nature.

- A. Grant Accounting. Federal regulation (44 CFR 13.20) requires subgrantees to maintain accurate, current, and complete accounting records on federal grant programs. However, the V.I. Government's records on the receipt of funds for DPW were understated by \$1,815,650 due to accounting errors and a lack of reconciliation.

The V.I. Department of Finance was responsible for maintaining the official accounting records of the V.I. Government and accounting for the receipt and expenditure of all federal grant funds. To account for FEMA funds under Disaster 1067, the Department of Finance established a separate DPW cost center for receipt and expenditure.

The OMB, on the other hand, was responsible for withdrawing FEMA program funds from the U.S. Treasury and reporting such withdrawals to the Department of Finance. Additionally, both OMB and Department of Finance were responsible for coordinating their efforts and reconciling their accounts. The OIG determined that this was not done and the Department of Finance failed to maintain accurate records on the receipt of funds for the DPW.

OMB records showed that the V.I. Government requested and received \$9,151,720 under Disaster 1067 for DPW. OMB submitted reports to the Department of Finance confirming this amount. However, the Department of Finance records reflected only \$7,336,070, or \$1,815,650 less than the amount in OMB records.

The OIG determined that the Department of Finance incorrectly posted \$3,965,080 of DPW funds to accounts established for the Department of Education (\$3,746,268); Internal Revenue Bureau (\$42,635); and other entities (\$176,177). Also, \$2,149,430 of receipts posted to DPW's FEMA account should have been posted to other DPW accounts, or the accounts of other V.I. Government entities.

- B. Contracting Practices. Federal regulation (44 CFR 13.36) requires subgrantees to maintain records sufficient to detail the significant history of procurements, including the rationale for the method for such procurements and the basis for the contractor selection and contract price.

However, DPW did not comply with these requirements, as illustrated by Finding C, and failed to exercise sound contracting and cost control practices. Specifically, DPW did not document the basis for contractor selection and contract price. Additionally, DPW

entered into several verbal contracts for debris removal work valued at \$6.7 million without subsequently documenting the contract terms and conditions.

C. Unsupported Charges. Federal regulation (44 CFR 13.20) requires subgrantees to maintain supporting documentation for all charges to FEMA projects. However, DPW's claim included \$678,481 of contract charges that were not supported by adequate documentation.

1. Three contractors billed DPW \$397,350 for debris removal activities on St. Thomas and St. John. Each contractor submitted invoices reporting work performed at various sectors of the islands. However, written contracts were not available to identify the scope of work or the basis for compensation. Additionally, DPW did not have any records reflecting the amount of debris collected, equipment used, identity of the equipment operators, or number of hours worked on the FEMA projects. As a result, the OIG questions the appropriateness of these charges. The affected projects are:

<u>Project No.</u>	<u>Amount Questioned</u>	<u>Location</u>	<u>Sector</u>
22493	\$180,000	St. Thomas	Zone B1
22486	112,000	St. Thomas	Zone B1 and B2
62204	<u>105,350</u>	St. John	Routes 102, 103, 107 108, 109
Total	<u>\$397,350</u>		

2. DPW hired two contractors under Project 56396 to install roof tarps on damaged homes located on St. Thomas. Both contractors submitted invoices identifying the homes where tarps were installed and the amount of material used on each home. However, one of the contractors billed and received compensation of \$587,694 for 786,756 square feet, but submitted support for the installation of only 442,115 square feet. Therefore, the OIG questions the remaining 344,641 square feet valued at \$258,062. (\$.7488 per square foot X 344,641).
3. DPW claimed a total \$608,956 for work done under several projects. However, transactions in the Department of Finance's official accounting records reflected costs of \$585,887. The OIG questions the unsupported charges of \$23,069, as follows:

<u>DSR</u>	<u>Amount Claimed</u>	<u>Amount Supported</u>	<u>Amount Unsupported</u>
22506	\$181,707	\$176,227	\$ 5,480
58261	381,760	364,501	17,259
22526	<u>45,489</u>	<u>45,159</u>	<u>330</u>
	<u>\$608,956</u>	<u>\$585,887</u>	<u>\$23,069</u>

- D. Unrelated Project Charges. DPW's claim under two projects included \$59,276 of unrelated project charges. Project 72568 provided for repairs to an access road at the airport lagoon on St. Thomas. However, the claim of \$63,118 under this project included \$42,000 to remove sludge from a wastewater treatment plant at the lagoon. These charges were unauthorized and did not benefit the project.

Also, the DPW's claim of \$175,953 under Project 55853 included \$17,276 of labor and equipment costs that were incurred two weeks, to a month, before the disaster. Accordingly, these costs did not benefit and were unrelated to the debris removal project.

Federal regulation (U.S. OMB circular A-87, C.1.a) requires that for cost to be allowable under a federal grant program, it must be necessary and reasonable for proper and efficient administration of the program. Accordingly, the OIG questions the \$59,276 of unrelated project charges.

- E. Duplicate Charges. Federal regulation (44 CFR 206.191) prohibits duplication of benefits between FEMA programs and those of other federal agencies. However, DPW's claim included \$35,124 of charges that were funded by other sources or were duplicate in nature.

1. DPW received \$5,444 under small Project 22911 for the disposal of two house trailers on St. Croix. However, DPW also claimed and received \$5,000 for disposal of the same two trailers under large Project 93211. Therefore, the OIG questions DPW claim of \$5,444 under Project 22911.
2. DPW claimed \$9,719 under Project 55802 for erosion repairs at Long Bay on St. Thomas. However, DPW also received funds from the Federal Highway Administration to cover the same activity. Accordingly, the OIG questions \$9,719 of duplicate funding.
3. DPW'S claim under Project 56896, awarded for the purpose of installing tarps on damaged homes, contained \$19,961 of duplicate charges. The Department hired two contractors' to perform these activities and paid \$1,530,476 based on contractors' billing. However, the contracts did not specify the areas covered by the two contractors and the OIG found the contractors bills identified tarp installation to the same 15 homes. One contractor claimed \$18,530 for tarp installation on the 15 homes during December 1995 to January 19, 1996. The other claimed \$19,961 during January 23, 1996 to July 10, 1996. Therefore, the OIG questions the duplicate claim of \$19,961.

RECOMMENDATIONS

The OIG recommends that the Regional Director, in coordination with the OMB:

1. Instruct the Department of Finance to coordinate their accounting efforts with the OMB and ensure that records on the receipts of federal funds are timely and appropriately reconciled;
2. Instruct the Department of Public Works to comply with applicable procurement requirements when implementing FEMA projects in the future; and
3. Disallow the \$772,881 of questioned costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of the audit with FEMA, OMB and the DPW officials on June 12, 2003. DPW officials generally concurred with the findings but indicated that an attempt would be made to support questioned costs.

Please advise the Atlanta Field Office-Audit Division by September 29, 2003, of actions taken to implement our recommendations. Should you have questions concerning this report, please contact me at (770) 220-5242.

EXHIBIT

V.I. Government, Department of Public Works
FEMA Disaster No. 1067-DR-VI
Schedule of Claimed and Questioned Costs

Large Projects

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Amount Claimed</u>	<u>Amount Questioned</u>	
22486	\$ 112,900	\$ 112,000	\$112,000	Finding C
22487	62,500	62,500	0	
22488	100,000	100,000	0	
22489	97,482	97,482	0	
22490	97,000	97,000	0	
22491	96,500	96,500	0	
22492	52,000	52,000	0	
22493	180,000	180,000	180,000	Finding C
22494	50,000	50,000	0	
22505	1,381,478	1,307,853	0	
55853	195,503	175,953	17,276	Finding D
58261	336,760	381,760	17,259	Finding C
58734	294,934	294,934	0	
62204	1,095,527	812,762	105,350	Finding C
77676	1,420,320	1,360,320	0	
93211	1,921,575	1,911,736	0	
93287	316,712	306,570	0	
58560	418,139	418,139	0	
22506	195,733	181,707	5,480	Finding C
55844	45,556	45,556	0	
22203	44,869	0	0	
93209	51,757	0	0	
37086	51,900	0	0	
37379	44,229	0	0	
56896	1,530,856	1,530,096	258,062	Finding C
56896			19,961	Finding E
56897	232,750	232,650	0	
57192	77,603	77,603	0	
72568	63,118	63,118	42,000	Finding D
22526	48,992	45,489	330	Finding C
55847	128,478	116,916	0	
57019	45,199	40,691	0	
58736	61,361	60,694	0	
Sub-totals	\$10,851,731	\$10,212,029	\$757,718	

Small Projects

55802	9,719	9,719	9,719	Finding E
22911	5,444	5,444	5,444	Finding E
All other small project	580,371	188,353	0	
Sub-total	\$ 595,534	\$ 203,516	\$ 15,163	
Totals	<u>\$11,447,265</u>	<u>\$10,415,545</u>	<u>\$772,881</u>	